UNIVERSITI PUTRA MALAYSIA

A CORPORATE STRATEGY FOR AIROD SENDIRIAN BERHAD (1988 - 1994)

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FEP 1988 1

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A CORPORATE STRATEGY FOR

AIROD SENDIRIAN BERHAD (1988 - 1994)

by

Muhamed Ghazali bin Taib

A case study submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the Faculty of Economics and Management, Universiti Pertanian Malaysia.

April 1988

PREFACE

The privatization of the RMAF Aircraft Overhaul Depot (AIROD) in 1985 into a commercial, profit-oriented organization called AIROD Sendirian Berhad (ASB) have seen a reduction of personnel from 1,412 to an initial workforce of 283. This gives rise to much speculation on the future performance of the young aerospace industry in this country. This case study attempts to analyze the performance of this company from the time it was privatized to date.

One of the long-term goals of this company is to establish itself as the leading centre of aeronautical excellence in the region. It is interesting to see how well the company can achieve the stated objective with strong competition from a string of aerospace maintenance companies in this region.

In the course of completing this report, the writer had encountered several constraints. One of the major constraints is that most of the data are confidential in nature. Thus, there were some difficulties in obtaining essential data. Further, most of the people interviewed were quite hostile or suspicious of the writer's intention. Lack of industrial data is another constraining factor, especially information on key competitors. Due to confidentiality, the names and figures in this report have been deliberately disguised as long as it does not distort the true picture.

The text of this report is organized into five (5) chapters. Chapter 1 introduces the facts about the company's background and the external environment in which the company is operating. Chapter 2 discusses the internal and external environmental factors aimed at highlighting the strengths, weaknesses, opportunities, and threats. With this, the company can identify its strengths and improve on its weaknesses and capitalize on the opportunities as well as minimize the possible threats. Chapter 3 covers the review of alternative options/ solutions available to the company. Chapter 4 suggests the recommendation and outlines the implementation plan. This is followed by the suggestion on the proper review and control method to ensure the successful strategy implementation. Chapter 5 summarizes the report.

The writer is indebted to Brigadier General (Rtd) Datuk Arman bin Awang, the General Manager of ASB for allowing him to conduct a case study of the company and for granting an interview on the subject. The writer is also indebted to Lieutenant General (Rtd) Datuk Mohamed bin Talib, the President of AIM for his kind assistance and suggestion on the conduct of this case study. The writer also wants to acknowledge the valuable assistance of the Chairman of the Board of Directors, Datuk Mohamed Azmi bin Talib in generating ideas on the prospects and problems faced by ASB. Profesor Madya Haji Zainal Abidin bin Kidam deserves the

writer's praise in offering excellent advice and supervision in completing this case study. The writer's overriding debt is to his wife, Rohaya, who provided him the time, support, and inspiration needed to complete this case study.

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ABSTRACT

AIROD Sendirian Berhad (ASB) was incorporated in early 1985 as a business firm, being the first Government project to be privatized. Its principal activities range from providing overhaul and repair services of military and commercial aircrafts and its related equipment and components. ASB clearly set its short-term and long-term goals and are made known to all its employees. Its organization structure is based on seven formal departments under the overall direction of the Managing Director, an expatriate from Lockheed Aircraft Services International (LASI).

The main problems faced by this company are: its inability to penetrate open market; high overhead costs; and inadequate skill and expertise to keep in pace with the rapidly changing environment of aircraft maintenance services.

The case is analyzed using the framework suggested by Leslie Rue and Phyllis Holland. Thus, the following are analyzed: mission, strategies and objectives, strategic capabilities, the broad environment, the competitive environment, and the SWOT analysis.

The alternative options/ solutions to overcome the stated problems are presented in two-fold: the improvement of current capabilities, and the search for new

capabilities. In the former, the options available are to: redefine mission statement, refine corporate goals, restructure the organization, adopt strategic management, set functional area standard of excellence, improve marketing and financial management, develop human resource, and acquire civil work certification. In the latter alternative, the options available are to: upgrade A-4 aircraft, and add new lines of business which include manufacturing aircraft parts and flight data recorders, developing capability in ground communication systems, servicing of cathodic protection device, undertaking sub-contract work, negotiating with aircraft manufacturers to become the licensed assembler and/ or manufacturer of aircraft and aircraft parts, and establishing the Aeronautical Training School.

In recommendation, the summary of strategies to be adopted are presented according to short-term and long-term implementation. Then the impact of these strategies are summarized by proposing the two management key goals: to expand sales at a growth rate of 10% per year, and to achieve an annual net profit margin of 10%. Then the projected sales and profit for the period 1988 to 1994 is proposed based on the actual results of the past three years of operations. The implementation plan and review and control method are then presented to allow the company to translate the strategies into plan and action; and to review

the plan when environmental changes affect the attainment of goals. The three types of control techniques proposed are: strategic control, management control, and operational control.

The newly formulated corporate goals for the next seven years (1988 - 1994) will hopefully bring ASB towards another phase of organizational development.

CHAPTER 1: INTRODUCTION

BOARD CHAIRMAN'S DILEMMA

Immediately after the interim board meeting of AIROD Sdn Bhd (ASB) to study the performance of the company up to October 1987, Datuk Mohamed Azmi bin Talib, the Chairman of the Board of Directors lamented that something was not right with the overall performance of the company. He commented to another director who represented Malaysia Airline System, Datuk Hamid Rahman that: "...the company is not growing." He further commented that at present money are coming in from basically one source, i.e. Ministry of Defense. "How can a company grow when our customer is only one! What happened to the joint venture agreement!," he further emphasized.

Another director representing United Motor Works, Datuk Thomas Chia suggested that a consultancy firm be engaged to study the problems that the company is facing and to look into the long-term implication of the present company's performance. In addition, he suggested that the firm be asked to look into the aerospace industry as a whole, with an emphasis on this region. Datuk Azmi fully supported the proposal and agreed to bring the matter up in the next board meeting scheduled in January 1988.

This case is not designed to illustrate either correct or incorrect handling of administrative problems.

On 11 January 1988 board meeting, Datuk Azmi suggested to the board members that there is a real need to study the company performance in view of the unexpected performance so far. He proposed that a consultancy firm be engaged and commisioned to carry out a study on the overall performance and to suggest possible solutions to overcome the problems. Having discussed this matter at length, the board then agreed on the proposal. The board then directed the Managing Director to engage a firm to carry out a study with a view to recommend a new corporate strategy for the company for the current period until 1994, and to submit their report by the second week of April 1988.

When the officer from MGT Consult, the consultancy firm engaged by the company to do a study, first approached Datuk Azmi, he began by tracing the beginning of aerospace industry in Malaysia.

AEROSPACE INDUSTRY IN MALAYSIA

THE BEGINNING

Datuk Azmi began the interview by saying, "As a developing country embarking on industrialization for greater economic resilience, Malaysia is not unique in her aspirations. All developing countries whose economies are heavily dependent on primary products, are particularly aware of the urgent need for diversification into technology-based

industries. The aerospace industry by virtue of the wide-ranging technologies involved, has a great potential to meet the economic and industrial needs of a developing country.

Faced with the uncertainties of price fluctuations of primary commodities, Malaysia has placed emphasis on industrialization based on the twin-prong strategies of privatization of government-owned institutions and increasing investment in launching of heavy industries. While there has been much speculation on the economic viability of such ventures, it is premature to assess their success at the present stage in view of the current economic slowdown that the country is facing. Thus, such government emphasis has nevertheless given necessary impetus to the establishment of an aerospace industry in Malaysia."

Datuk Azmi mentioned that the development of aviation industry in this country can be traced back to the formation of Malayan Airways Limited in 1947, then Malaysia-Singapore Airlines (MSA), until Malaysian and Singaporean governments decided to split MSA to form their respective national airlines, namely Malaysia Airline System (MAS) and Singapore International Airline (SIA). In the division of assets, most of the fixed assets including the technical facilities located in Singapore had to be allocated to Singapore since they were in the island state. This move had subsequently proved to provide a significant competitive advantage to Singapore's aviation and aerospace industries over that of

Malaysia.

He further explained that the Royal Malaysian Air Force (RMAF) came into the forefront when British decided to withdraw their forces from the Far East in early seventies. Rapid Malaysianization of the air force took place when new bases and maintenance facilities were established up to the second line level. A significant development in the RMAF took place in 1972 when the project to set up an aircraft overhaul depot was approved under the Second Malaysia Plan.

PRESENT STATE OF INDUSTRY

Datuk Azmi felt that apart from Aerospace Industries Malaysia (AIM) and its newly privatized subsidiary ASB, the aerospace industry in Malaysia consists basically of the following bodies and their maintenance facilities:

a. Royal Malaysian Air Force.
b. Malaysia Airline System.
c. Malaysian Helicopter Services.
d. Pelangi Air.
e. Royal Malaysian Police.
f. Royal Malaysian Navy.
g. Other aircraft operators.
h. Maintenance and overhaul companies.

The aerospace industry encompasses quite a wide field of activities ranging from air transport to space research

and exploration. However he felt that at present, in the Malaysian context, it is not realistic to include space research and exploration. He then discussed the development of aerospace industry in Malaysia, beginning with the RMAF, then MAS, Malaysia Helicopter Services, and other aircraft operators.

Royal Malaysian Air Force. With total strength of about 10,000 personnel and an asset of over 250 aircraft, the RMAF is a relatively young air force. With the privatization of its overhaul depot in 1985, its engineering capabilities are now mainly confined to the first and second line maintenance of its aircraft. Some limited capabilities for the salvage and repair of aircraft have been retained. The RMAF present and projected aircraft inventory is shown as Appendix 1. Datuk Azmi added : "There is no reliable source for the maintenance costs of its aircraft. However, its annual costs in servicing the overseas overhaul contracts is estimated to be around $50 to $70 million." The technical workforce of about 5,000 personnel is well trained with its technical training conducted both locally and overseas. The RMAF Institute of Technology in Kinrara has a capacity to train about 300 technicians a year, though this may be supplemented by training facilities in Australia, United Kingdom, and the United States of America.

Malaysia Airline System. Since its incorporation in 1971 as the national carrier, MAS has developed and expanded

its assets and facilities to become a viable international airline. With a paid-up capital of $500 million, an asset of 38 aircraft and a total employment of over 10,000 personnel, it operates on both domestic and international routes with a credible average load factor of 70 %. With heavy investments in its main base in Subang, it has developed and expanded its engineering facilities and capabilities to include complete airframe maintenance on its fleet except D-checks of its wide-bodied aircraft. Some of the maintenance facilities recently completed include the engine and component workshop, engine test cell rated up to 100,000 pounds thrust and the $68 million hangar workshop complex capable of doing corrosion control inspection program (CCIP). Its current maintenance capabilities are listed in Appendix 2. Its technical workforce consists of about 2,000 aircraft engineers and technicians including about 50 professional engineers and 300 licensed aircraft engineers (LAEs). Besides conducting technical courses on all its aircraft types, its training school in Subang has a capacity to train about 150 artisans, apprentice engineers and cadet flight engineers at any one time.

Malaysian Helicopter Services. The Malaysian Helicopter Services (MHS) was launched in early 1983, and currently operates a total of twelve helicopters and three fixed wing aircraft mainly to provide air transport for the off-shore oil drilling facilities. It employs a total of